GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:2169
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EFFECTS OF INTEREST RATE ON ECONOMY
Adhalrao Patil Shri Shivaji;Verma Shri Ravi Prakash

Will the Minister of FINANCE be pleased to state:

(a) whether the Reserve Bank of India raised the interest rates to moderate the pace of the economy over the last two years;

(b) if so, the details thereof;

(c) whether the inflation rate had come down to 3.1 per cent due to raised interest rate;

(d) if so, the details thereof;

(e) whether the Government proposes to lower the interest rates; and

(f) if not, the reasons therefor?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a) & (b): Effective October 18, 1994, the Reserve Bank of India (RBI) has deregulated the interest rates on advances above Rs. 2 lakh including the housing loans and these interest rates are determined by the banks themselves with the approval of their respective Boards. For credit limits up to Rs. 2 lakh, the Benchmark Prime Lending Rate (BPLR) has been prescribed as the ceiling lending rate. In order to enhance transparency in banks` pricing of their loan products, banks have been advised to fix their BPLR after taking into account

(i) actual costs of funds,

(ii) operating expenses and

(iii) a minimum margin to cover regulatory requirements of provisioning/ capital charge and profit margin.

Banks have been allowed to freely price their loan products below or above their BPLR and offer floating rate products by using market benchmarks in a transparent manner. Effective October 22, 1997 the RBI has given freedom to the commercial banks to fix their own interest rates on domestic term deposits of various with prior approval of their respective Boards. Interest rate on savings bank deposits continues to be administered by the RBI and have remained unchanged at 3.5 per cent since March 1, 2003.

Details of changes in key policy rates announced by the Reserve Bank of India during the last two years are as follows:

RBI Policy Rates (%)

Effective date	Liquidity Adjustment Facility Repo	Reverse-Repo	Effective date	Cash Reserve Ratio
April 29, 2005	5.00	6.00	December 23,2006	5.25
October26, 2005	5.25	6.25	January 6,2007	5.50
January 24, 2006	5.50	6.50	February 17,2007	5.75
June 9, 2006	5.75	6.75	March 3, 2007	6.00
July 25, 2006	6.00	7.00	April 14, 2007	6.25
October 31, 2006	6.00	7.25	April 28, 2007	6.50
January 31, 2007	6.00	7.50	August 4, 2007	7.00
March 31, 2007	6.00	7.75	November 10, 2007	7.50

During 2005-06 and 2006-07 real GDP growth of the economy was 9.0 per cent and 9.4 per cent respectively.

(c) & (d): As on November 10, 2007, the rate of inflation as measured by the movements in the wholesale price index (WPI, Base 1993-94=100) was 3.01 per cent. The anti-inflationary measures include RBI`s monetary policy stance, fiscal prudence of the

Government and initiatives for easing supply constraints.

(e) & (f): Interest rates are market determined.